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SUBJECT: METI VICE MINISTER CITES BUSINESS NETWORKS, CHINA  
COMPETITION AS REASONS FOR FTA INITIATIVE

Classified By: Charge d'Affaires Joe Donovan.  
Reason: 1.4 (b,d)

11. (C) Summary: Japan feels a need for legal protections for its companies' integrated production facilities and trade flows throughout East Asia. That and Japan's desire to stop or slow China efforts to assume a leadership role in the process of regional economic integration had spurred Japan's own proposal for an ASEAN plus 6 FTA at the recent ASEAN Economic Ministers' meeting, according to Japanese Ministry of Economy, Trade, and Industry (METI) Vice Minister Toshiaki Kitamura. Meeting with U.S. APEC Senior Official Amb. Michael Michalak on August 29, Kitamura indicated that APEC's lack of binding decisions and rules had led to Japan's decision to turn to other forums to protect its interests. According to Kitamura, what Japan hoped for most was to be able to buy time in order to craft a better response to the accelerating process of regional integration in order to protect its main economic interests in the region, which center on Japanese integrated investments, intra-company trade and intellectual property. End summary.

Doha and China  
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12. (C) Amb. Michalak opened by congratulating Kitamura on his promotion to Vice Minister and asked Kitamura about his current work priorities. (Until July, Kitamura had been Director-General of METI's Trade Policy Bureau.) Kitamura indicated that, in terms of the global economy, the suspension of the Doha Development Agenda negotiations in the World Trade Organization (WTO) was a very serious situation. Michalak cited U.S. Trade Representative Schwab's recent remarks in Kuala Lumpur where she advocated restarting the negotiations in the near future. Kitamura then noted that Amb. Schwab had gone to China following her visit to Malaysia and had met with Chinese Commerce Minister Bo Xilai. The television coverage of that meeting, Kitamura said, indicated that the United States and China had agreed to collaborate in an effort to restart the Doha talks. He expressed the concern that Amb. Schwab's visit represented a U.S. belief that the "Group of Six" discussions (the United States, the European Union, Brazil, India, and Japan) had failed as a negotiating forum and that China would now need to be brought in as a partner

in the effort to restart the stalled talks.

#### Vision of Regional Architecture

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13. (C) Michalak then asked Kitamura for his vision for the future of Japan's relations with the international economy in light of the difficulties at the WTO. Kitamura said that further economic integration with Asia aimed at benefiting Japan's growth was the priority goal. That was the thinking behind the recent proposals for regional integration presented by METI Minister Toshihiro Nikai at the ASEAN Economic Minister meeting in Kuala Lumpur during the week of August 21. Kitamura asked for U.S. support for this proposal as a friend of Japan. In particular, the United States could provide "intellectual support" for Japan with respect to establishing a sound legal framework for trade and investment in Asia. The United States could exercise this influence most readily through its participation in APEC.

14. (C) Michalak indicated his agreement with Kitamura's comments but added that the United States had recently seen Japan committing far more resources to non-APEC regional institutions than to APEC itself. This had led many observers in Washington to believe that, although Japan was interested in maintaining a robust security relationship with the United States, it was less inclined toward greater economic integration with the U.S. and instead was focusing on Asia.

#### Japan's Main Aim to Counter China

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15. (C) Kitamura then responded to Michalak's observation by noting Japanese concerns regarding China. What Japan wants from regional integration, he stressed, was different from what China wants. Japanese investment, Kitamura said, had helped to fuel greater economic integration in Asia because Japanese companies located production of various components throughout the region. China is focused on trade and its contribution in terms of investment is small. Japanese companies had created production networks throughout Southeast Asia. This meant that Japan's priorities centered on protection of investment, intra-company trade flows and intellectual property. China had no interest in those issues, according to Kitamura. As a result, Japan had felt compelled to launch its own initiative for greater regional integration for consideration at the ASEAN Economic Ministers' meeting.

16. (C) When Michalak questioned whether Japan might have been able to address the same concerns through APEC, Kitamura replied that the main problem was that APEC's agreements were non-binding, unlike those that could be achieved through a free trade agreement (FTA). When Michalak noted that steps could be taken in APEC to meet these concerns, Kitamura reposted that Japan had supported U.S. initiatives with respect to intellectual property protection and investment issues. Michalak clarified his view that Japan had not been active on organizational initiatives such as those aimed at strengthening the APEC Secretariat, streamlining procedures, and even establishing

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a binding decision-making structure. Kitamura replied that these ideas were all new and that Japan was still considering their merit.

17. (C) Michalak commented that Japan's position had, in fact, seemed quite clear: in APEC, it had taken a generally reactive posture; but in other forums like the East Asian Summit and ASEAN Plus Three, it had proactively sought to strengthen the institution concerned. This

latter type of cooperation from Japan had been noticeably lacking in APEC. Kitamura seemed surprised by this conclusion. The United States, Michalak added, had major economic interests in Asia. U.S. firms as well had production networks in Asia of the kind Kitamura had described, and the flows of trade and investment between the United States and Asia meant that the United States still had to be considered as an important economic partner.

#### FTA Proliferation a Factor in Japanese Proposal

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¶8. (C) Kitamura pointed to the burgeoning development of free trade agreements in Asia, particularly between the ASEAN countries and other major regional economies. That, he stressed, had been the context of the proposal for a free trade agreement among the 13 ASEAN Plus Three countries (the ten ASEAN states plus Japan, China, and South Korea) that China had supported at the Kuala Lumpur meeting. ASEAN, Kitamura asserted, needed an alternative to the ASEAN Plus Three proposal. As a result of Japan's efforts, the ASEAN Economic Ministers had agreed to study Japan's ASEAN Plus Six (the 13 ASEAN Plus Three countries, Australia, New Zealand, and India) proposal. Japan's main goal, according to Kitamura, was to stop the Chinese-backed ASEAN Plus Three FTA initiative, to halt Chinese dominance of ASEAN, and to buy time for Japan to craft a response to the process of regional integration.

¶9. (C) Michalak again questioned why APEC could not be the forum for these efforts to counter Chinese influence. Kitamura posited that Japan's present initiative could be a building block for a future APEC-wide FTA. Michalak noted that the FTAs currently existing in Asia tended to have too many exceptions to allow for economically significant trade liberalization. He expressed the hope that the Japan-ASEAN FTA under negotiation would be more ambitious than previous agreements. If countries like the United States, Australia, Singapore, and Japan could work together, Michalak said, better quality FTAs could be achieved. APEC, he indicated, would be working on a united response

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to the proliferation of FTAs in Asia but acknowledged that this effort demanded substantial resources even to assess the possible benefits of proposed agreements. Kitamura replied that METI planned to devote substantial resources to APEC in the foreseeable future.

¶10. Comment: Kitamura's point about Japan's needing to protect its companies' integrated networks, which other METI and Foreign Ministry officials also made to Amb. Michalak is a new rationale for the ASEAN plus Six proposal that the GOJ had not advanced before. It fits in well with growing discussion in Japan on the need to increase productivity through investment abroad as one measure of keeping Japan prosperous in the face of an aging and declining population and a cultural antipathy to immigration. End comment.

¶11. (U) Ambassador Michalak has cleared this message.  
DONOVAN